

DIRECT TESTIMONY AND EXHIBITS OF
MATTHEW P. SCHELLINGER II
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2018-358-WS
IN RE: VERIFIED APPLICATION OF CAROLINA WATER SERVICE,
INCORPORATED FOR APPROVAL OF ANNUAL RATE ADJUSTMENT
MECHANISMS AND PETITION FOR AN ACCOUNTING ORDER TO DEFER
EXPENSES

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Matthew P. Schellinger II. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff (“ORS”) in the Utility Rates and Services Division as a Regulatory Analyst.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree with a major in Accounting from the University of South Florida in 2012. I received a Master of Business Administration with a focus in Management and Strategy from Western Governors University in 2016. From 2007 to 2013, I was employed as a controller for an insurance agency. In that capacity, I performed general corporate accounting functions on a daily and monthly basis. In February 2013, I began my employment with ORS as an Auditor. In May 2016, I joined the Utility Rates and Services Division as a Regulatory Analyst.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?

A. Yes. I have testified before the Commission in connection with hearings concerning the Fuel Adjustment Clause, general rate cases, natural gas, and water and wastewater matters.

Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?

A. ORS represents the public interest as defined by the South Carolina General Assembly as:

The concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to present ORS’s analysis and recommendations related to Carolina Water Service, Inc., or Blue Granite Water Company’s (“Company” or “BGWC”) request for approval of an annual rate adjustment mechanism and petition for an accounting order to defer expenses (“Application”). The Company subsequently amended the Application on February 21, 2019, to request the Company be allowed to increase its rates to customers.

Q. PLEASE DESCRIBE THE COMPONENTS OF THE APPLICATION AND SUBSEQUENT AMENDMENT.

A. The Application is comprised of four distinct components:

- 1) Request for approval for an annual rate adjustment mechanism (“ARA”);
- 2) Request to recover deferred purchased water expenses;
- 3) Request to recover deferred purchased wastewater expenses; and,

4) Increase rates to water distribution and all sewer customers to pass through purchased water and sewer increases from third-party providers.

Further, the Company requested to continue deferral accounting treatment for future third-party provider increases.

Q. PLEASE COMPARE THE PROPOSED ANNUAL RATE ADJUSTMENT MECHANISM TO THOSE REFERENCED IN THE APPLICATION.

A. The Company based its request for the rate adjustment mechanism on prior Commission precedent for purchased service expenses in South Carolina. The Company referenced Kiawah Island Utility, Inc. (“KIU”), Docket No. 2001-164-W/S, Ocean Lakes Utility, L.P. in Docket No. 2013-380-S, Utilities Services of South Carolina, Inc. in Docket No. 2005-217-WS, and Dowd Water Systems, Inc. in Docket No. 2003-7-W.

In each of the referenced instances, when the applicable utility receives a direct increase from a wholesale provider, that utility passes on the direct and actual increase to the customers. Recently KIU requested a \$0.11 per 1,000-gallon increase for all classes of water customers. This increase in the water charge, approved by the Commission in Order No. 2019-288, is due to the third-party provider, St. Johns Water Company, increasing its wholesale water price. The Commission approved a tariff for KIU which included a Purchased Water Adjustment which allows KIU to pass through the increased wholesale water price from St. John’s Water Company to KIU customers dollar-for-dollar with no markup. KIU is required to provide customers with a thirty (30) day written notice. See Exhibit MPS-1.

The Company’s request to establish an ARA mechanism is different from the KIU Purchased Water Adjustment in several aspects:

- 1) It does not pass through to customers the increase in wholesale water or sewer treatment charges dollar-for-dollar.
- 2) It will pass through to customers the deferred water and sewer treatment expense balance of approximately \$1,137,696.
- 3) It will pass through to customers the costs for non-revenue water and inflow and infiltration.
- 4) It will pass through to customers the risk of the Company's over or under recovery due to changes in consumption and changes in customer numbers.
- 5) It will pass through to customers purchased water and sewer treatment expenses from third-party providers that do not directly provide wholesale service to the service territory where the customer is located.

Q. PLEASE EXPLAIN THE CORE PRINCIPLES THAT GUIDE UTILITY RATE DESIGN.

A. In developing water and wastewater rates, both utilities and utility commissions, including this Commission, have relied upon ten (10) rate design principles from Dr. James C. Bonbright ("Bonbright Principles"). These principles are:

Revenue-related Attributes:

- 1) Effectiveness in yielding total revenue requirements under the fair-return standard without any socially undesirable expansion of the rate base or socially undesirable level of product quality and safety.
- 2) Revenue stability and predictability, with a minimum of unexpected changes seriously adverse to utility companies.
- 3) Stability and predictability of the rates themselves, with a minimum of unexpected changes seriously adverse to ratepayers and with a sense of historical continuity. (Compare "The best tax is an old tax.")

Cost-related Attributes:

- 4) Static efficiency of the rate classes and rate blocks in discouraging wasteful use of service while promoting all justified types and amounts of use:
 - a. In the control of the total amounts of service supplied by the company,
 - b. In the control of the relative uses of alternative types of service by ratepayers (on-peak versus off-peak service or higher quality versus lower quality service).
- 5) Reflection of all of the present and future private and social costs and benefits occasioned by a service's provision (i.e., all internalities and externalities).
- 6) Fairness of the specific rates in the apportionment of the total costs of service among the different ratepayers so as to avoid arbitrariness and capriciousness and to attain equity in three dimensions: (1) *horizontal* (i.e., equals treated equally); (2) *vertical* (i.e., unequals treated unequally); and (3) *anonymous* (i.e., no ratepayer's demands can be diverted away uneconomically from an incumbent by a potential entrant).
- 7) Avoidance of undue discrimination in rate relationships so as to be, if possible, compensatory (i.e., subsidy free with no intercustomer burdens).
- 8) Dynamic efficiency in promoting innovation and responding economically to changing demand and supply patterns.

Practical-related Attributes:

- 9) The related, practical attributes of simplicity, certainty, convenience of payment, economy in collection, understandability, public acceptability, and feasibility of application.
- 10) Freedom from controversies as to proper interpretation.¹

Q. PLEASE EXPLAIN THE NEGATIVE IMPACTS TO CUSTOMERS ASSOCIATED WITH THE COMPANY'S PROPOSAL TO RECOVER THE DEFERRED ACCOUNT BALANCE ATTRIBUTED TO INCREASES IN WATER AND WASTEWATER EXPENSES.

A. In Docket No. 2015-199-WS, the Commission approved two (2) regulatory deferral accounts. One account has been used by BGWC to capture detail on rate increases from

¹ See James C. Bonbright, Albert L. Danielsen and David R. Kamerschen, "Principles of Public Utility Rates, 2nd Edition", Public Utilities Reports (March, 1988)

1 third-party bulk providers. The second account was closed in the Company's last rate case
2 (Docket No. 2017-292-WS). In this Application, the Company requests recovery of the
3 deferral balance over one (1) year. From March 2018 through January 2019, BGWC's
4 deferral grew due to increases in wholesale rates charged by York County, City of
5 Columbia, Lexington County Joint Municipal, Beaufort-Jasper Water & Sewer, and City
6 of West Columbia as shown in Application Exhibit D schedules 3 and 4. As of January 31,
7 2019, the Company's deferral balance was \$1,137,696 and continues to grow.

8 Third-party providers are faced with the rising costs to repair and replace critical
9 infrastructure and these significant investments impact the rates for wholesale and retail
10 customers. The Company has indicated the level of increases experienced by BGWC from
11 both York County and City of West Columbia are unlikely to recur in the future. Should
12 rates be set to recover this high deferral balance over a 12-month period, it could create
13 rate volatility for customers as future rates may require a substantial decrease due to the
14 deferral balance having been fully recovered, or even over recovered.

15 Further, the amount in rates to recover the deferral balance is determined by historic
16 customer consumption. While in and of itself this is not an issue, if customer consumption
17 in the future increases or decreases substantially, it may result in a deferral that is
18 significantly over or under recovered. It is ORS's recommendation that the recovery of the
19 deferral balance should be determined in the Company's next general rate proceeding. This
20 would allow the Commission to establish a reasonable amortization period and consider
21 other increases and decreases to expenses resulting in a reasonable total revenue
22 requirement. Recovery of the deferral balance over a single year could result in rate
23 volatility in subsequent rate adjustment proceedings.

1 ORS is not aware of instances where this Commission has granted a water or
2 wastewater utility the ability to recover a regulatory deferral account absent a general rate
3 proceeding. ORS recommends the Commission reject the Company's request to recover
4 its deferred account balance of \$1,137,696 and instruct the Company to file for recovery
5 of the deferred account balance in the Company's next general rate proceeding such that
6 the Commission can consider the recovery in the context of other expense and revenue
7 changes.

8 **Q. PLEASE DESCRIBE THE NEGATIVE IMPACTS TO WATER DISTRIBUTION**
9 **CUSTOMERS OF THE COMPANY'S PROPOSED ANNUAL RATE**
10 **ADJUSTMENT MECHANISM.**

11 **A.** The proposed ARA mechanism for water distribution customers contains several
12 aspects that could negatively impact customers.

13 **Cross-subsidization and Inequity**

14 First, the ARA mechanism allocates the change in purchased water expense to all
15 water distribution customers in the Service Territory – even if the water distribution
16 customer does not receive water from the third-party provider that increased its wholesale
17 rate. For an example, a purchased water increase from the City of West Columbia will be
18 paid by residents who receive their water from York County, Lexington County Joint
19 Municipal, City of Columbia, and the Town of Lexington. It should be noted that none of
20 the Company's water systems are interconnected and are located in different geographic
21 locations throughout the state. This socialization of purchased water increases through the
22 proposed ARA mechanism does not support Bonbright Principles 6 and 7 which require
23 rate design to consider:

- 6) Fairness of the specific rates in the apportionment of the total costs of service among the different ratepayers so as to avoid arbitrariness and capriciousness and to attain equity in three dimensions: (1) *horizontal* (i.e., equals treated equally); (2) *vertical* (i.e., unequals treated unequally); and (3) *anonymous* (i.e., no ratepayer's demands can be diverted away uneconomically from an incumbent by a potential entrant).
- 7) Avoidance of undue discrimination in rate relationships so as to be, if possible, compensatory (i.e., subsidy free with no intercustomer burdens).

Lack of Transparency

Second, the ARA mechanism lacks transparency, is difficult to calculate and difficult to explain to customers. By comparison, when KIU receives an increase from St. John's Water Company of \$0.05/1,000 gallons, KIU is able to directly reflect an increase of \$0.05/1,000 gallons on a customer's bill. BGWC's proposal does not provide that level of transparency and customers will not be able to easily determine why their monthly bill has changed unless the customer closely monitors each ARA mechanism filing. This lack of transparency and understanding of purchased water increases through the proposed ARA mechanism does not support Bonbright Principles 3, 9 and 10 which require rate design to consider:

- 3) Stability and predictability of the rates themselves, with a minimum of unexpected changes seriously adverse to ratepayers and with a sense of historical continuity. (Compare "The best tax is an old tax.")
- 9) The related, practical attributes of simplicity, certainty, convenience of payment, economy in collection, understandability, public acceptability, and feasibility of application.
- 10) Freedom from controversies as to proper interpretation.

Non-revenue water

Third, the ARA mechanism proposes the customer should shoulder the cost for all non-revenue water. Based on the calculations performed by the Company in the

Application exhibits, the Company intends to allocate 100% of the purchased water expense to customers. This would result in all water loss, or non-revenue water being billed to customers. The ARA mechanism proposed by BGWC contains no incentive for the Company to minimize water distribution system leaks and apparent losses which include unauthorized use, misread meters, and data collection errors. This disincentive to control non-revenue water puts the customers at risk because the customer will be required to pay for hidden costs attributed to uncontrolled non-revenue water. If non-revenue water is controlled in an adequate manner, it may reduce BGWC's costs to supply water and, in turn, put downward pressure on rates.

Confusing true-up mechanism for over and under-recovery

Fourth, the ARA mechanism further separates customers from the true pricing of their water from third-party providers by instituting a true-up mechanism for over and under recoveries that is only required due to the Company not passing on actual changes in the rates from the third-party provider. Over and under-recovery will occur when consumption in a 12-month period is recovered in a future period which will generate an additional over or under recovery based on customer consumption changes in water usage between the two periods. The true-up in the ARA mechanism will create additional administrative and bookkeeping pressures for both the Company and for ORS and add an element of confusion for customers as they try to understand the changes in their bills from year to year.

Lack of opportunity for meaningful public participation

Last, the ARA mechanism does not allow the customers or other interested parties an opportunity to participate in the annual review or audit. Unlike the electrical utility Fuel

Adjustment Clause, BGWC's ARA mechanism proposal does not contain a provision to allow for public participation or a hearing if the Commission determines it is necessary. Public participation is important to insure utilities are accountable and transparent in the delivery of high-quality, safe and reliable services.

Q. PLEASE DESCRIBE THE NEGATIVE IMPACTS TO SEWER CUSTOMERS OF THE COMPANY'S PROPOSED ANNUAL RATE ADJUSTMENT MECHANISM.

A. The proposed ARA mechanism for sewer customers has many of the same aspects that would negatively impact water distribution customers – cross-subsidization and inequity, lack of transparency, no customer protections from the impacts of inflow and infiltration, confusing true-up for over and under recovery, and lack of opportunity for meaningful public participation. One additional negative aspect in the ARA mechanism is the Company proposes to allocate the increases in third-party provider expenses from third-party providers to all sewer treatment and sewer collection only customers. See Application Exhibit G, page 9 of 14. The allocation of the deferred account balance and the third-party expenses to Sewer Collection & Treatment only customers who do not receive sewer treatment service from a third-party provider is inequitable. Sewer Collection & Treatment customers receive no benefit through the ARA mechanism.

Q. PLEASE EXPLAIN THE RESULT OF ORS'S REVIEW OF THE DEFERRAL ACCOUNT BALANCE AND THE PURCHASED WATER AND SEWER TREATMENT EXPENSES FOR WHICH THE COMPANY IS REQUESTING.

A. ORS does not recommend any change to BGWC rates in this proceeding. Due to the expedited schedule requested by the Company ORS accelerated its review of the deferred account balance. On initial review, ORS did not note any material misstatements

1 in the Company's calculation of the increases in purchased water and purchased
2 wastewater treatment expense during its review.

3 Should the Commission adopt the Company's position and allow the Company to
4 adjust rates in this proceeding, ORS requests the opportunity to thoroughly verify the
5 Company's purchased water and sewer deferral account balance and corresponding rate
6 adjustment. ORS estimates it would complete this verification in less than thirty (30) days.
7 ORS would indicate completion of its review via letter to the Commission.

8 **Q. PLEASE EXPLAIN ORS'S RECOMMENDATIONS PERTAINING TO THE**
9 **APPLICATION?**

10 **A.** ORS recommends the Commission deny the Company's request to establish an
11 ARA mechanism and deny the request to change rates as proposed by the Company in its
12 Application.

13 ORS recommends the Company be permitted to make a filing to establish a pass-
14 through mechanism to pass through the changes in rates charged to the Company by third
15 parties for water commodities and wastewater treatment services without mark-up or
16 margin. This pass-through mechanism shall impact water distribution and sewer collection
17 customers only. Further, the pass-through mechanism will limit the pass through of
18 changes in expenses charged to the Company by third-party providers to the water and/or
19 sewer customers whose distribution and/or collection system is connected to the third-party
20 provider that incurred the change in rates. For example, if the City of Columbia increases
21 water commodity rates to the Company, the increase in the pass-through charge will impact
22 the water distribution customers who receive water from the City of Columbia. Such a rate
23 change from the third-party provider will be reflected in the pass-through mechanism

1 dollar-for-dollar without markup or margin. ORS recommends the company provide
2 written notice to customers at least thirty (30) days in advance of a future rate change
3 associated with the pass-through mechanism. See Exhibit MPS-2 for ORS's
4 recommendations for the pass-through mechanism calculation.

5 ORS recommends the Company's authorization to defer purchased water and
6 wastewater treatment expenses caused by changes in third party provider rates be continued
7 until such expenses are reflected in rates.

8 ORS recommends the Company be required to conduct a feasibility study of a third-
9 party provider specific pass-through charge as a separate line item on customer bills in
10 order to provide greater transparency for customers, avoid the accumulation of a large
11 purchased water commodity and wastewater treatment deferred account, and allow for
12 more timely recovery of third-party expenses. The Company should provide the
13 Commission with the results of the feasibility study and steps to implementation, if
14 necessary, in the Company's next general rate case.

15 ORS's recommendations provide customer protections and maintain the
16 Company's ability to provide safe and reliable service to customers. The current deferral
17 account for purchased water and sewer increases allows BGWC to seek recovery of the
18 increased costs attributed to third-party provider rate increases in the next general rate
19 proceeding.

20 The Company disclosed to the Commission during a recent allowable ex parte
21 briefing, Non-Docketed Matter ND-2019-6-WS, that the Company intends to file a rate
22 case in September 2019. Therefore, the recommendation to defer a decision on the
23 BGWC's request to the next general rate proceeding will not cause BGWC harm.

1 **Q. WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT**
2 **BECOMES AVAILABLE?**

3 **A.**Yes. ORS reserves the right to revise its recommendations via supplemental
4 testimony should new information not previously provided by the Company, or other
5 sources become available.

6 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

7 **A.**Yes, it does.

KIAWAH ISLAND UTILITY, INC.
31 Sora Rall Road
Johns Island, S.C. 29455
(843) 768-0641

Schedule of Rates and Charges
FILED PURSUANT TO DOCKET NO. 2017-257-WS - ORDER NO. 2019-
APPROVED BY THE PSC ON APRIL 25, 2019

RATE SCHEDULE NO. 1 RESIDENTIAL SERVICE

AVAILABILITY - Available within the Company's service area.
APPLICABILITY - Applicable to any residential customer for any purpose.

Water Service Charges

A.	Base Facilities Charge		
	5/8" meter	\$36.65 / mo.	Pass Through Changes
	3/4" meter	\$54.98 / mo.	
	1" meter	\$91.62 / mo.	
	1 1/2" meter	\$183.25 / mo.	
	2" meter	\$293.21 / mo.	
	3" meter	\$641.40 / mo.	
	4" meter	\$1,840.73 / mo.	

Base Facilities Charge for water service with meters larger than 4" shall be:

Maximum recommended meter capacity (gpm) x \$36.65 per mo.
20 gpm

B.	Consumption Charge		
	All up to 11,000 gals./mo.	\$4.50 /1000 gal.	\$4.61 /1000 gal.
C.	Excess Consumption Charge #1		
	All over 11,000 gal./mo. and up to 50,000 gal./ mo.	\$5.04 /1000 gal.	\$5.15 /1000 gal.
D.	Excess Consumption Charge #2		
	All over 50,000 gal./mo.	\$5.38 /1000 gal.	\$5.49 /1000 gal.

Sewer Service Charges

A.	Base Facilities Charge	
	5/8" water meter	\$28.00 / mo.
	3/4" water meter	\$42.00 / mo.
	1" water meter	\$69.99 / mo.
	1 1/2" water meter	\$139.98 / mo.
	2" water meter	\$223.98 / mo.
	3" water meter	\$489.95 / mo.
	4" water meter	\$1,514.79 / mo.

Base Facilities Charge for sewer service where water service is through meters larger than 4" shall be:

Maximum recommended meter capacity (gpm) x \$28.00 per mo.
20 gpm

B.	Consumption Charge based on Water Usage	
	All up to 11,000 gals./mo.	\$0.74 /1000 gal.

RATE SCHEDULE NO. 2 COMMERCIAL SERVICE

AVAILABILITY - Available within the Company's service area.

APPLICABILITY - Applicable to any commercial or master metered residential customer for any purpose except hotel or motel use (see Rate Schedule No. 3).

Water Service Charges

A.	Base Facilities Charge	
	5/8" meter	\$36.65 / mo.
	3/4" meter	\$54.98 / mo.
	1" meter	\$91.62 / mo.
	1 1/2" meter	\$183.25 / mo.
	2" meter	\$293.21 / mo.
	3" meter	\$641.40 / mo.
	4" meter	\$1,840.73 / mo.

Base Facilities Charge for water service with meters larger than 4" shall be:

Maximum recommended meter capacity (gpm) x \$36.65 per mo.
20 gpm

B.	Consumption Charge	\$5.38 /1000 gal.	\$5.49 /1000 gal.
		for all consumption	

Sewer Service Charges

A.	Base Facilities Charge	
	5/8" water meter	\$28.00 / mo.
	3/4" water meter	\$42.00 / mo.
	1" water meter	\$69.99 / mo.
	1 1/2" water meter	\$139.98 / mo.
	2" water meter	\$223.98 / mo.
	3" water meter	\$489.95 / mo.
	4" water meter	\$1,514.79 / mo.

Base Facilities Charge for sewer service where water service is through meters larger than 4" shall be:

Maximum recommended meter capacity (gpm) x \$28.00 per mo.
20 gpm

B.	Consumption Charge based on Water Usage	\$2.86 /1000 gal.
		for all consumption

RATE SCHEDULE NO. 3 HOTEL AND MOTEL SERVICE

AVAILABILITY - Available within the Company's service area.
APPLICABILITY - Applicable to all hotel and motel customers for any purpose.

Water Service Charges

Base Facilities Charge	\$14.72 /mo./room	
All Consumption	\$5.38 /1000 gal.	\$5.49 /1000 gal.

Sewer Service Charges

Base Facilities Charge	\$11.19 /mo./room
All Consumption	\$2.86 /1000 gal.

RATE SCHEDULE NO. 4 IRRIGATION SERVICE

AVAILABILITY - Available within the Company's service area. The Company reserves the right to limit or reduce the irrigation service available when, in its sole judgment, its water system conditions require such restrictions.

APPLICABILITY - Applicable only to customers who anticipate substantial potable water use which will not be returned to the Company's wastewater treatment system such as irrigation. Such water consumption shall be metered separately from any water use supplied under other rate schedules.

Water Service Charges

A.	Base Facilities Charge		
	5/8" meter	\$36.65 / mo.	
	3/4" meter	\$54.98 / mo.	
	1" meter	\$91.62 / mo.	
	1 1/2" meter	\$183.25 / mo.	
	2" meter	\$293.21 / mo.	
	3" meter	\$641.40 / mo.	
	4" meter	\$1,840.73 / mo.	
	Base Facilities Charge for water service with meters larger than 4" shall be: <u>Maximum recommended meter capacity (gpm) x \$36.65 per mo.</u> 20 gpm		
B.	Consumption Charge		
	All up to 50,000 gals./mo.	\$5.04 /1000 gal.	\$5.15 /1000 gal.
C.	Excess Consumption Charge		
	All over 50,000 gal./mo.	\$5.38 /1000 gal.	\$5.49 /1000 gal.

RATE SCHEDULE NO. 5 FIRE HYDRANT SERVICE

AVAILABILITY - Available within the Company's service area.
APPLICABILITY - Applicable to fire hydrants connected to Company water mains.

Water Service Charges

When temporary water service from a hydrant is requested by a contractor or others, a meter will be installed and the charge will be:
\$8.00 for each day of use, PLUS \$5.38/1000 gals for ALL water used, PLUS a \$50 security deposit
Note: The only portion of this rate to change with the pass through is the per thousand gallon charge as shown

5.49 /1000 gal.

RATE SCHEDULE NO. 6 GOLF COURSE IRRIGATION

AVAILABILITY - Available within the Company's service area.
APPLICABILITY - Applicable for golf course irrigation where the customer agrees to take as a minimum quantity the treated effluent from the wastewater treatment plant.

Water Service Charges

A.	Effluent water will be billed at a rate of:	
	Base Facilities Charge per Golf Course	\$4,648.72 / mo.
	Consumption	\$0.20 /1000 gal.
B.	Deep well water will be billed at a rate of:	
	Base Facilities Charge per Golf Course	\$1,138.80 / mo.
	Consumption	\$0.30 /1000 gal.
C.	Potable water will be billed at a rate of:	
	Base Facilities Charge per Golf Course	\$871.45 / mo.

Consumption \$5.38 /1000 gal. \$5.49 /1000 gal.

RATE SCHEDULE NO. 7 FIRE LINE SERVICE

AVAILABILITY - Available within the Company's service area.
APPLICABILITY - Applicable for private fire lines.

Water Service Charges

Base Facilities Charge

2" Line	\$8.65 / mo.
3" Line	\$15.83 / mo.
4" Line	\$27.43 / mo.
6" Line	\$54.87 / mo.
8" Line	\$96.11 / mo.

TAP FEES - RESIDENTIAL, COMMERCIAL

	<u>Water Tap-In Fee</u>	<u>Sewer Tap-In Fee</u>
5/8" meter	\$500.00	\$500.00
3/4" meter	\$750.00	\$750.00
1" meter	\$1,250.00	\$1,250.00
1 1/2" meter	\$2,500.00	\$2,500.00
2" meter	\$4,000.00	\$4,000.00
3" meter	\$8,750.00	\$8,750.00

Water tap-in fee and sewer tap-in fee for water and sewer service where the water meter is larger than 3" shall be:

Maximum recommended meter capacity (gpm) x \$500.00
20 gpm

TAP FEES - IRRIGATION

	<u>Water Tap-In Fee</u>
5/8" meter	\$500.00
3/4" meter	\$750.00
1" meter	\$1,250.00
1 1/2" meter	\$2,500.00
2" meter	\$4,000.00
3" meter	\$8,750.00

Water tap-in fee and sewer tap-in fee for water and sewer service where the water meter is larger than 3" shall be:

Maximum recommended meter capacity (gpm) x \$500.00
20 gpm

TAP-IN FEES - HOTEL

Water Tap-In Fee	\$220.00 /room
Sewer Tap-In Fee	\$220.00 /room

TAP IN FEES - FIRE LINES

2" Line	\$4,000.00
3" Line	\$8,750.00
4" Line	\$25,000.00

Fire line tap-in fee where the line is larger than 4" shall be:

Maximum recommended meter capacity (gpm) x \$500.00
20 gpm

**CHARGES FOR SERVICE DISCONTINUANCE, RECONNECTION
AND OTHER MISCELLANEOUS SERVICE CHARGES**

1. When a customer requests discontinuance of service for the purpose of not receiving a monthly statement, the Company shall charge the equivalent of three months of basic facilities charges for both water and sewer service and require payment of such charges when for any reason service is restored to that particular customer.
2. Reimbursement of cost to make repairs to services or meters caused by others will be charged at actual cost as allowed per PSC Regulations 103-726 and R.103-733.5
3. Whenever service is disconnected for violation of rules and regulations, nonpayment of bills or fraudulent use of service, the Company will charge a \$70.00 fee to restore service.
4. A service fee of \$25.00 shall be charged by the Company for non-routine, non-emergency service performed for the customer on the customer's side of the meter.
5. Delinquent Notification Fee - A fee of \$20.00 shall be charged each customer to whom the Company mails a notice of discontinuance of service as required by the Commission rules prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating that cost.
6. Customer Initiation Fee - A one-time fee of \$25.00 will be charged to each new account to defray costs of initiating service.
7. Return Check Fee - When a check is returned from the bank for Non-sufficient Funds, a fee equal to the maximum amount permitted by S.C. Code Ann. Section 34-11-70 will be charged.
8. Safe Drinking Water Fee - If the South Carolina Department of Health & Environmental Control charges the Company an assessment based on customer units served by the Company, the Company may bill its customers for the applicable unit cost of that assessment. The charge shall be identified as a separate billed item, identified as the SWD fee and included in the total of the service billing.

PURCHASED WATER ADJUSTMENT

Kiawah Island Utility, Inc. ("Company") purchases its potable water from the St. John's Water Company ("St. John's"), which in turn purchases the water from the Commissioners of Public Works of the City of Charleston ("CPW"). Whenever CPW increases the price of water sold to St. John's, the increase in price is passed through to the Company pursuant to the water purchase agreement between the Company and St. John's.

The water purchase agreement also provides, as part of the purchased water price, a pro-rata share of St. John's annual operation and maintenance costs to be charged to the Company. Therefore, the Company's revenue requirement for purchased water is made up of the water unit price per thousand gallons and the operation and maintenance costs charged by St. John's.

Accordingly, whenever there is a price adjustment for the purchase of potable water to Kiawah Island Utility, Inc. by the St. John's Water Company, the following billing adjustment

shall be made by the Company to its customer rates:

1. Billing Adjustment

In the event that St. John's adjusts (whether an increase or decrease) the unit price per 1,000 gallons and/or the operation and maintenance charges related to the purchase of potable water, the following billing adjustment practice would apply:

- (a) If the unit price is adjusted the cost change per 1,000 gallons would be passed through to the customers as an adjustment in like amount to the consumption charge on their water bill.

Example: The unit price of purchased water is increased by two cents per 1,000 gallons. The consumption charge on the customer's bill would reflect a two cent per 1,000 gallon increase.

- (b) If the pro-rata operation and maintenance charge is adjusted the cost change per 1,000 gallons (based on the most recent 12 months of potable water billed) would be passed through to the customers as an adjustment to the consumption charge on their water bill.

Example: The annual operation and maintenance charge is increased by \$18,000 and the most recent 12 months of potable water billed is 900,000 thousand gallons. The consumption charge on the customers bill would reflect a two cent per 1,000 gallon increase.

2. Notification

Any special billing adjustment shall not be billed until the following conditions are met:

- (a) The Company shall furnish the South Carolina Public Service Commission satisfactory proof of the basis for the adjustment and the billing method to be utilized at least sixty (60) days prior to its proposed effective date.
- (b) The Company shall furnish thirty (30) days prior written notice to the customers affected by the Purchased Water Adjustment advising them of the basis for the billing adjustment and its effective date.

PURCHASED WATER RATE ADJUSTMENT MECHANISM

Blue Granite Water Company ("Company") purchases its potable water from multiple third-party providers. Whenever the third-party providers adjust the price of water, the adjustment in price is passed through to the Company pursuant to various wholesale water purchase agreements.

Accordingly, whenever there is a price adjustment for the purchase of potable water to the Company by the third-party providers, the following billing adjustment shall be made to the Company's distribution only customers who are ultimately provided water by the third-party provider that initiated the price change:

1. Billing Adjustment

In the event that the third-party provider adjusts (whether an increase or decrease) the unit price per 1,000 gallons related to water commodity prices, the following billing adjustment practice would apply:

- (a) If the unit price is adjusted, the cost change per 1,000 gallons would be passed through to the Water Distribution Customers that receive water from the third-party provider as an adjustment in like amount to the Commodity charge on their water bill.

Example: The unit price of purchased water is increased by two (2) cents per 1,000 gallons. The Commodity charge on the customer's bill would reflect a two (2) cent per 1,000 gallon increase.

2. Notification

Any special billing adjustment shall not be billed until the following conditions are met:

- (a) The Company shall furnish the Public Service Commission of South Carolina satisfactory proof of the basis for the adjustment and the billing method to be utilized at least thirty (30) days prior to its proposed effective date.
- (b) The Company shall furnish thirty (30) days prior written notice to the Water Distribution Customers affected by the Purchased Water Rate Adjustment Mechanism advising them of the basis for the billing adjustment and its effective date.

PURCHASED SEWER RATE ADJUSTMENT MECHANISM

Blue Granite Water Company ("Company") purchases its sewer treatment from multiple third-party providers. Whenever the third-party providers adjust the price of sewer treatment prices, that adjustment in price is passed through to the Company pursuant to various wholesale sewage treatment agreements.

Accordingly, whenever there is a price adjustment for the treatment costs to the Company by the third-party providers, the following billing adjustment shall be made to the Company's sewer collection only customers who are ultimately provided treatment services by the third-party provider that initiated the price change:

1. Billing Adjustment

In the event that the third-party provider adjusts (whether an increase or decrease) the unit price related to the treatment of sewage, the following billing adjustment practice would apply:

- (a) The treatment expense from the provider will be passed on to the affected collection-only customers through an adjustment to their monthly charge.

Example: The treatment expense is increased by five (5) cent per SFE. The monthly charge on the customer's bill would reflect a five (5) cent per SFE increase.

2. Notification

Any special billing adjustment shall not be billed until the following conditions are met:

- (a) The Company shall furnish the Public Service Commission of South Carolina satisfactory proof of the basis for the adjustment and the billing method to be utilized at least thirty (30) days prior to its proposed effective date.
- (b) The Company shall furnish thirty (30) days prior written notice to the Sewer Collection Customers affected by the Purchased Sewer Rate Adjustment Mechanism advising them of the basis for the billing adjustment and its effective date.